March 14, 2024

Zinka Logistics Solutions Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term – Fund-based	441.0	401.0	[ICRA]A4+; reaffirmed
Short-term – Non-fund based	25.00	20.00	[ICRA]A4+; reaffirmed
Total	**466.00**	**421.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the rating factors in ICRA's expectation that Zinka Logistics Solutions Private Limited (ZLSPL/ the company) will continue to improve its presence in the truck operator services segment (distribution of Fastags, GPS and fuel cards), which is its key focus area. The increasing penetration in the services segment has facilitated a steady increase in its base of transacting users, enhancing its business prospects and cross-selling opportunities. However, the company has reduced its contract freight business owing to its low margin, high capital-intensive nature. The company's liquidity position remains adequate and ICRA expects it to remain so for the next few quarters on the back of existing cash reserves and buffer in limits. The rating favourably factors in the experienced promoter and management team, the company's asset-light business model, and its early-mover advantage in the technology-enabled logistics services space. Further, ZLSPL's freight division has a reputable client profile, however, with a moderate customer concentration risk.

The rating is, however, constrained by ongoing losses posted by the company owing to significant employee costs, selling and general expenses including tech-related costs towards scaling up the truck operator services segment. In addition, high provisioning for accounts receivable over the years has contributed to the losses. ESOP expenses have also impacted on the company's net profits in FY2023. However, ICRA notes that the company has been taking cost optimisation measures and, in the truck operator services segment, wherein majority of the sales force scale up has already happened, the ramp up would help it reduce its operating losses. Thus, while ZLSPL's EBITDA losses may continue in the near-term on a reducing basis as the business ramps up, the cash balances are expected to support its operations over the next few quarters. The company continues to face intense competition in the full truck load (FTL) roads logistics space; and the same will continue to weigh in on ZLSPL's pricing flexibility in this segment. The rating also factors in the high working capital intensity of business led by a long receivable cycle and advance payments to truck owners in the freight segment; although the same has improved by curtailing the freight business volumes and also by provisioning aged debtors.

Key rating drivers and their description

Credit strengths

Strong promoter and management team; asset-light business model – ZLSPL has a strong promoter and management team with relevant experience and considerable understanding of the domestic logistics industry. Its asset-light business model, supported by a proprietary technology platform, provides it with the ability to raise sizeable equity capital from private equity (PE) investors.

Reputed client profile, moderate concentration – ZLSPL operates solely in the business-to-business (B2B) space and its customers include reputed players such as Hindustan Unilever Limited, Reliance Petrochemicals Limited, Asian Paints and Colgate Palmolive, among others. Over the years, the company has established relationships with key players. In FY2023, ZLSPL derived 44% of its total freight revenues from its top five customers.

Adequate liquidity position – ZLSPL had received periodic equity infusions, with the last fund raise resulting in an equity infusion of $67 million from Tribe Capital, IFC Emerging Asia Fund and VEF, Wellington Management, Sands Capital, and IFC, the World Bank's investment arm. The infusion has enabled ZLSPL to sustain its operations by addressing funding needs, including loss funding, as well as by maintaining significant free cash balances.

Credit challenges

Significant losses continue, ability to reduce the same remains to be seen – ZLSPL reported revenues of Rs. 668 crore in FY2023 against Rs. 767 crore in FY2022 (YoY degrowth of ~13%) partly on the back of curtailment in the freight segment. The company's operating losses expanded as it ramped up its sales force for the truck operator services segment. Moreover, debtor provisioning and significant ESOP expenses added to the losses in FY2023, in addition to one-time losses incurred due to divestment of its holding in its Polish subsidiary. In H1 FY2024, on a provisional basis, the company has incurred losses at the operating level. However, in line with the strategy indicated by the management, the company has been implementing cost-cutting initiatives and also focusing on ramping up the services business, which is expected to reduce losses on a sequential basis.

High competitive intensity limits pricing flexibility – The Indian logistics industry is highly fragmented with several logistics companies—mainly unorganised players and a few large market participants. The industry has also been witnessing technology-driven disruptions from players like ZLSPL. Given the intense competition fuelled by sizeable PE investments in the sector, both incumbents as well as newcomers face significant pricing pressure. This restricts the company's ability to improve its gross margins to a certain extent. Going forward, ZLSPL's ability to contain its costs and improve efficiencies remains critical for it to stay competitive.

High working capital intensity led by long receivable cycle; although moderated by provisioning of legacy debtors and reduction in freight business – ZLSPL, in its freight business has a long working capital cycle led by a long receivable cycle and the need to make advance payments to truckers, in the freight segment. ICRA notes that the company's working capital intensity declined in FY2023 and H1 FY2024 on a YoY basis with curtailment of the freight business and focus on services. Further provisioning of aged debtors based on the company's policy has also reduced debtor levels.

Liquidity position: Adequate

ZLSPL's operating cash flows continue to remain strained owing to its operating losses. However, its liquidity position is supported by free cash and cash equivalents of ~Rs. 364 crore (as on March 31, 2023), most of which is parked in liquid instruments. There is no term loan repayment obligation. ZLSPL has Rs. 387 crore of sanctioned fund-based working capital facilities and the average working capital limit utilisation was less than 40% for the last nine months ending December 2023, resulting in adequate buffer.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company is able to break even at the operating level, while showcasing an improvement in its receivable cycle and maintaining a comfortable liquidity position.

Negative factors – ICRA could revise the rating downwards in case the company's free cash levels deplete substantially. Moreover, continued cash losses, elongation in the working capital cycle resulting in further deterioration of credit metrics and liquidity position could also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable

Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of ZLSPL.

About the company

Incorporated in April 2015, ZLSPL started its journey with an asset-light FTL model for long-haul trucking. Currently, the company's business operations can be broadly divided into—(i.) freight, and (ii.) truck operator services. The company's freight segment follows an asset-light business pattern for operations and currently operates only in long-haul, FTL, open-truck, standard-delivery, and inter-city freight services.

The company's online platform, 'Blackbuck', acts as an interface between shippers and truckers in its marketplace segment, wherein the app acts as an intermediary for any on-the-spot shipment. Prices are discovered through market participation with truckers bidding for a shipment. By eliminating the middlemen, the company enables truck drivers to earn better realisations per tonne.

Its truck operator services segment, meanwhile, distributes Fastags, Fuel Loyalty cards and subscription services for tracking (GPS) devices to truck operators. Initially, ZLSPL's services worked as a support function for the freight business; but now it has evolved to a one-stop shop for everything a fleet owner needs—from fuel and Fastag to GPS and load board.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	767.1	668.0
PAT	-293.4	-297.2
OPBDIT/OI	-35.1%	-39.8%
PAT/OI	-38.2%	-44.5%
Total outside liabilities/Tangible net worth (times)	0.5	0.9
Total debt/OPBDIT (times)	-0.7	-0.7
Interest coverage (times)	-8.8	-23.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 14, 2024	Jan 16, 2023	Nov 30, 2021	Sep 25, 2020
1	**Fund based**	Short term	401.0	--	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**
2	**Non-fund based**	Short term	20.00	--	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**
3	**Unallocated Limits**	Short term	-	--	-	-	-	**[ICRA]A4+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term – fund based	Simple
Short-term – Non-fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Short-term – fund based**	NA	NA	NA	401.0	**[ICRA]A4+**
NA	**Short-term – Non-fund based**	NA	NA	NA	20.00	**[ICRA]A4+**

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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